Intelligence MEMOS

From: Paul R. Masson

To: The Hon. Kathleen Wynne

Date: November 25, 2016

Re: **TIME TO MODERNIZE THE RETAIL OF ALCOHOLIC BEVERAGES IN ONTARIO**

The time has come for Ontario to modernize its antiquated system for selling alcoholic beverages—designed almost a century ago when alcohol sales were to be strictly controlled. Moving to a system in which private stores did most of the retailing would be a win-win: consumers would benefit from greater choice, and the government would reap higher revenues through greater productivity.

Since Anindya Sen and I published our C.D. Howe Institute study advocating for greater competition in Ontario's government-run system for selling beer, wine, and spirits, your government has made a number of modest changes. While these serve to increase incrementally the choices available to Ontarians by expanding retail outlets in supermarkets, making craft beers more available, and allowing wineries to sell at farmers' markets, they do not enhance competition. The LCBO still controls prices and wholesale distribution (except for beer, which is distributed through a government-sanctioned quasi-monopoly, the Beer Store, run by three large breweries—all foreign-owned). A limited number of off-winery stores owned by a few large wineries can retail wine, but other wineries cannot set up off-site stores, perpetuating an uneven playing field.

Overall, Ontario has a crazy quilt of regulations and restrictions that are a holdover from times when "control" in the LCBO's name was the prime reason for its existence. This system does not serve either the consumer or the government well. It restricts consumer options. The current system isn't best for the government either because it can increase revenue by moving to a system of private-sector-retailed alcoholic beverages and remitted tax revenues to the government.

The government has no comparative advantage in selling alcoholic beverages, nor is there any reason for a monopoly in retailing beer, wine, or spirits. Private retailers can enforce age restrictions on consumption just as effectively. Government loses revenues because a monopoly is not likely to be efficient or produce productivity gains, reducing the dividend paid to the government. A recent assessment of Quebec's SAQ alcoholic-beverage monopoly concludes that its productivity growth over the past three-and-a-half decades was significantly lower than that of Quebec's private retailers. Their calculations show that the LCBO's productivity growth was comparable to the SAQ's, so we can infer that the LCBO has also not been successful in making productivity gains. Monopolies--especially when run by the government--have little incentive to do so, meaning that they are short-changing the public purse.

Madam Premier, the province should move forward to greater competition through involving the private sector and removing the control over pricing, wholesaling and retailing exercised by the LCBO. Rather than depending on the dividend from the LCBO for a good part of government revenues from alcohol, Ontario could generate equivalent receipts from taxes alone, after appropriate adjustment. Over time, such a system would grow government revenues from alcoholic beverages more strongly than the current system, by producing more efficient retailing and greater consumer choice. Ontarians would gain on both fronts--by accessing their preferred tipple more easily and paying less for it.

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